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ABSTRACT

Proposed budget cuts by the Reagan Administration that will directly affect the financial aid programs at the University of Delaware are examined, along with the anticipated impacts of the cuts. The programs specifically slated for reduction in both funds and the number of students who will be eligible to participate in 1981-82 include the Guaranteed Student Loan (GSL) Program, the Pell/Basic Educational Opportunity Grant program, and the Social Security Student Benefits Program. In addition, reduction are anticipated in the funds available through the National Direct Student Loan, Supplemental Educational Opportunity Grant, College Work Study, and some reciprocal state grant programs. It is projected that if the interest rate subsidy on the GSL program is eliminated, the university can anticipate a 20 percent reduction in student participation in the program. If the needs-based approach to the GSL program is adopted, it is suggested that lenders would be dissuaded from actively participating in the program and student participation would be reduced by 40 percent. A 35 percent reduction in the amount of funds available to students under the Pell Grant program is anticipated, as is redefinition of student eligibility. The proposal to withdraw the Student Loan Marketing Association's (Sallied Mae) access to borrow from the federal government may greatly diminish its ability to serve as a secondary market and warehousing mechanism for the Guaranteed Student Loan lenders. Phasing out of the Social Security Student Benefit program would result in approximately 1,000 University of Delaware students losing about $50,000 per month for the 1981-82 academic year. Ten steps being taken by the university in light of these proposed reductions are outlined. (SW)

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April 24, 1981

Dear Colleague:

The Reagan Administration has proposed budget cuts that will directly affect the financial aid programs at our University. We expect the proposed funding cutbacks to impact student enrollment, student housing, student employment on campus, the rate of student attrition/retention, academic advisement and the general revenues available to the University in 1981-82. For the 1980-81 year, the Office of Scholarships and Student Financial Aid has administered over $22 million and has financially assisted over 9,000 students.

The programs specifically slated for reduction in both funds and the number of students who will be eligible to participate in 1981-82 include the Guaranteed Student Loan Program, the PELL/BEOG Grant Program and the Social Security Student Benefits Program. In addition, we anticipate reductions in the funds available through the National Direct Student Loan, Supplemental Educational Opportunity Grant, College Work Study and some reciprocal state Grant Programs. The specific Reagan proposals and their anticipated impact are discussed in the attached report. We have also indicated in the report planning and operational steps the Office of Scholarships and Student Financial Aid are taking in light of the proposed reductions. Although, it is too early in the political process to determine the legislative impact of the Reagan proposal, we urge members of the University Community to become familiar with the Reagan administration's proposed reductions and their possible impact. Anyone who wishes additional or updated information is encouraged to call the Office of Scholarship and Student Financial Aid at Ext. 8121.

Sincerely,

Douglas S. MacDonald

Douglas S. MacDonald, Director
Office of Scholarships and
Student Financial Aid

DSM/jam

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SPECIAL REPORT

THE EFFECT OF PROPOSED REAGAN ADMINISTRATION CUTS ON UNIVERSITY OF DELAWARE FINANCIAL AID PROGRAMS

Some of President Reagan's efforts to reduce federal spending and control the inflationary spiral will directly and adversely affect federal student aid programs. Through its proposed federal student assistance cutbacks, the Reagan administration hopes to achieve cost savings, restore the focus of federal student aid to the truly needy and emphasize the traditional role of the student and the family in contributing to meet the costs of higher education. Higher education officials who recently testified before Congress reported that the Reagan administration's proposed reductions in federal student aid programs will result in approximately 750,000 students dropping out or changing their decision about where to attend college in the 1981-82 school year. Moreover, the officials said, the reductions could result in the closing of approximately 280 institutions of higher education. It is expected that the institutions that would suffer the most serious impact as a result of proposed federal reductions of student aid programs would be private institutions heavily dependent upon federal monies.

The Congressional Research Service of the Library of Congress reports that:

> While the possible net impact on middle- and lower-income students could be a possible shortage of needed funds, many postsecondary institutions could find fewer than anticipated students enrolling. In particular, private colleges and universities with high tuition costs and higher than average proportions of middle-income students could be adversely affected as students short on college funds shift to lower cost public institutions, defer college attendance or otherwise amend their higher education plans.

The Reagan administration proposes to reduce the federal postsecondary student assistance funding in the following four areas:

1. The Guaranteed Student Loan (GSL)

PROPOSAL

This program would be amended by:

- Providing students GSL's only for remaining need after other sources of federal student aid and family contributions had been counted. Currently a need test is not required for this program;

- Eliminating the in-school interest subsidy, wherein the federal government pays to lenders the interest on a loan while the student is in school;

- Eliminating the federal special administrative allowance payments to lenders of parents' loans; and

- Allowing lenders to set the interest rate of parent loans at the prevailing market rate rather than at the current authorized rate of nine percent.

IMPACT

The Office of Scholarships and Student Financial Aid projects that, if the interest rate subsidy on the Guaranteed Student Loan is eliminated, the University of Delaware can anticipate a 20 percent reduction in student participation in the Guaranteed Student Loan program.

If the needs-based approach to the Guaranteed Student Loan is adopted, office professionals believe lenders would be dissuaded from actively participating in the program. Requiring a needs test would increase the program's complexity and reduce the lender's yield-per-dollar loan because the average loan amount would go down while administrative costs for each would increase. These changes would make the program less attractive to the lending community and, as a result, the lending community may be reluctant to continue participation. The Office of Scholarships and Student Financial Aid further projects that, if the needs test becomes a requirement of the Guaranteed Student Loan program, then the University of Delaware student participation rate would be reduced by 40 percent. The University of Delaware currently has more than 7,000 students who receive over $13 million under the Guaranteed Student Loan program.

2. Pell Grants (Basic Grants)

PROPOSAL

Pell Grants would be amended by:

- Rescinding the inflationary adjustment made to family-size offsets in the 1981-82 Pell Grant Family contribution schedules published January 19, 1981; and

- increasing the amount of discretionary income that a student's family must contribute, effective with the 1982-83 academic year.

IMPACT

Currently, the University of Delaware administers approximately $2 million in Pell Grant funds and approximately 3,000 students participate in the program. As a result of proposed cutbacks, the Office of Scholarships and Student Financial Aid anticipates an approximate 35 percent reduction in the amount of funds available to students under the Pell Grant program. The University of Delaware currently has more than 500 students who come from families with incomes over $25,000 receiving Pell Grants. The Office of Scholarships and Student Financial Aid projects that these students would no longer be eligible to participate in the Pell Grant program. The administration's cost-reduction proposals would essentially tighten eligibility and redefine the needy student population eligible to participate in the Pell Grant program.

3. The Student Loan Marketing Association (Sallie Mae)

PROPOSAL

Sallie Mae, a private corporation established by Congress to maintain a secondary market and warehouse facility for Guaranteed Student Loans, would be prohibited from borrowing from the federal government.

IMPACT

Withdrawing Sallie Mae's access to borrow from the federal government would greatly diminish its ability to serve as a secondary market and warehousing mechanism for Guaranteed Student Loan lenders. Though Sallie Mae currently is preparing plans to issue debt obligations on the open market,

it will not be ready to do so for some time. The administration argues that, with the Guaranteed Student Loan volume at record levels, stimulation of the lender's supply by Sallie Mae is unnecessary. Therefore, the administration seeks to limit the supply of Guaranteed Student Loan capital by reducing Sallie Mae's ability to stimulate the supply. By limiting supply and by limiting demand through the imposition of a needs test, costs to the federal budget would be reduced. Lender participation could decrease because of the reduced availability of loan funds from Sallie Mae. Some students, particularly the most needy, who generally are less preferred borrowers, could encounter difficulties in obtaining loans.

4. The Social Security Student Benefit

PROPOSAL

This program would be phased out of existence in four years. According to administration officials, reductions in the Social Security Student Benefit program are needed in order to gain control of rising student assistance costs and to help balance the federal budget. Proposed cuts are designed to save financial expenditures in the academic years, 1981-82 and 1982-83.

IMPACT

This program is targeted at students between the ages of 18 and 22 who come from families where parents are deceased, disabled or retired. The General Accounting Office reports that more than half the student beneficiaries participating in this program come from families earning under $8,000. The Office of Scholarships and Student Financial Aid estimates that the approximately 1,000 University of Delaware students participating in the Social Security Student Benefit program may stand to lose a total of approximately $50,000 per month for the 1981-82 academic year.

In light of these proposed federal student financial aid cost reductions, the University of Delaware's Office of Scholarships and Student Financial Aid is taking specific steps, including the following:

1. Simulations of 1981-82 award packages for University of Delaware students that take into consideration anticipated federal funding reductions are currently being studied, to insure that the final award packages will be the fairest possible allotments of available financial aid funds;

2. Steps have been taken to notify students about the anticipated federal reduction in financial aid programs so students can attempt to increase their summer earnings and evaluate the necessity of securing a Guaranteed Student Loan or other "self-help" assistance to help defray their cost of education in 1981-82;

3. Seminars are being held to inform both students and other University community groups regarding the changes in the funding patterns of financial aid programs from 1980-81 to the 1981-82 academic year;

4. The University's position regarding student financial aid appropriations from the State of Delaware has been reevaluated and as a result, our need to have State student financial aid appropriations funded at the highest level possible has been reaffirmed;

5. Plans for discussions with State officials to explore the possibility of establishing incentives for the lending community to encourage the availability of Guaranteed Student Loans in Delaware have been initiated;

6. The possibility of the University of Delaware becoming a lender in the Guaranteed Student Loan program to financially assist University students if the banking community reduces its willingness to lend is being explored.

7. A special telephone "hot line" has been established to give students a recorded message on the weekly status of award processing for the 1981-82 academic year and the activities of the Office of Scholarships and Student Financial Aid.

8. To effectively plan for the potential adverse implications of the Reagan administration's financial aid cutbacks, the University's Office of Scholarships and Student Financial Aid has initiated discussions with the following:

    1. Offices of Admissions and Institutional Research (to discuss enrollment planning implications);

    2. Retention/attrition of students (presentations have been scheduled for faculty advisers);

    3. Office of Housing and Residence Life (preliminary discussions are ongoing and further specific discussions are scheduled); and

    4. Office of the Treasurer (financial aid implications on revenue are significant. For example, the 1979-80

total revenue generated from tuition and fees was approximately $28 million. The financial aid funds that are administered in toto by the University's Office of Scholarships and Student Financial Aid total $22 million. We recognize that there is a strong correlation between financial aid and the revenue flow. Although the information we are generating is certainly not finalized at this stage, we have projected a $5 million drop in financial aid from 1980-81 to 1981-82.

5. Communication also has been made with the Office of Winter and Summer Sessions regarding the certain adverse impact of reduced availability of financial aid to help assist students in defraying their costs for these programs.

9. We are anticipating a cutback in available College Work Study funds in 1981-82. The Department of Education will be allocating College Work Study funds on the basis of prior year's funding data rather than allowing the most persuasive data to be used to determine the University's "fair share" of aid. The implications to the University community may mean less College Work Study funds available to each department and less student participation as compared to previous years.

10. The Office of Scholarships and Student Financial Aid has developed a computer based FINANCIAL AID SEARCH program. This new computerized service enables students to identify an assortment of scholarships and grants that may possibly be available to students as a result of individually matching up the students academic and personal information with various restrictive funds. Information about the service is available in room 231 Hullihen Hall.

In addition, Congressional representatives have been contacted regarding the University's student federal aid position. Alternative anti-inflationary cutbacks in the financial aid programs have been recommended and the consequences of the erosion of the University's ability to help our students and their families finance a higher education have been pointed out.

Some examples of anti-inflationary cutbacks the University has proposed as alternatives to the Reagan proposals include implementation of an income ceiling on the Guaranteed Student Loan instead of a needs test; requiring affluent families to pay proportionally more of their income for college costs than lower-income families; and limiting the amount of equity in a home that

may be deducted from a family's income and calculating how much parents can contribute to the cost of their son's or daughter's education. (The current law does not take into consideration home equity in assessing financial strength for financial aid eligibility for the 1982-83 academic year.)

The Guaranteed Student Loan program has been saddled with deferment provisions designed to meet national manpower objectives. Recent federal legislation has added substantially to the list of eligible deferments. At a time when the cost of the Guaranteed Student Loan program is under close scrutiny, the Office of Scholarships and Student Financial Aid believes that lender forebearance is adequate to assist borrowers in unusual circumstances and that specific manpower agencies should bear the costs of their deferment rather than shifting this cost to the Guaranteed Student Loan program.

In the 1980 Educational Amendments, the Military Manpower Provisions included a mechanism by which the Department of Defense asked for appropriations for Guaranteed Student Loan cancellations for selective servicemen and women, and paid the Department of Education for the costs of the cancellations. This type of mechanism could be used for many current deferments, such as VISTA, the Peace Corps, the Public Health Service, rehabilitation training and disability payments. As a result, beneficiaries of the deferments would bear the costs of those deferments and the Guaranteed Student Loan Program could continue to target its funding to financially needy students attending institutions of post-secondary education.

Another cost-effective option for the Guaranteed Student Loan program would be to eliminate the six-month grace period following deferments. This new benefit, included in the 1980 Educational Amendments, adds to federal costs while providing little social benefit. Until the passage of the amendments,

students began repayment immediately following deferment periods. Guaranteed Student Loan program data indicate that the previous repayment schedule did not impose hardship on the borrower. In addition, lenders traditionally have exercised forebearance when hardship is a factor.

The Office of Scholarships and Student Financial Aid recognizes that student financial aid expenditures for postsecondary education may need to be refocused and reasonable cost reductions made. Therefore, the extent of the cutbacks, the timing of the cuts and the methodology for implementing them are all being carefully considered so that the University's final award packages will be the fairest possible allotments of available financial aid funds.

FINANCIAL AID

The Office of Scholarships and Student Financial Aid projects that over $22 million dollars in total student financial aid funds will be administered and awarded to over 9,000 students in 1980-81. The Office of Scholarships and Student Financial Aid has experienced an increase of approximately $5 million in total student financial aid over last year's funds. The total funds administered in 1981-82 are projected to decline as compared to 1980-81 funding levels. The decline is the result of the proposed cutbacks in federal spending. Specific implications for the reductions in federal student aid programs are uncertain at this time.

TABLE I

Summary of Financial Aid Awarded to Delaware Students Over the Past Three Year Period

	1979-80	Estimate 1980-81	Estimate 1981-82
University Controlled Resources			
State (Grants)	$ 1,866,000	$ 1,916,000	$ 1,916,000
Federal (Grants, loans and work-study)	4,299,627	5,188,746	3,800,000
University (Scholarships, grants & work-study)	580,258	660,949	710,000
Sub-Total	$ 6,745,885	$ 7,765,695	$ 6,426,000
Non-University Resources			
Scholarships & Grants	$ 704,394	$ 800,000	$ 800,000
Guaranteed Student Loan	9,486,000	13,500,000	10,500,000
Sub-Total	$10,190,394	$14,300,000	$11,300,000
TOTAL (All Sources)	$16,936,279	$22,065,695	$17,726,000